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ABSTRACT

This analysis of how plans to balance the budget are likely to affect the public considers the latest Republican offer and the Democratic administration's offer of January 18, 1996, as well as pending action on the fiscal year 1996 appropriations bills. The analysis finds that the latest Republican offer, in conjunction with pending and enacted appropriations bills, would cut low-income discretionary programs (programs that are not entitlements) by 19%, in comparison with all other discretionary programs that would be cut by an average of 5% and all other non-defense programs, which would be cut an average of 10%. Discretionary programs for low-income people account for 12% of all discretionary funding, but would absorb 33% of all discretionary cuts. A similar imbalance marks proposals to restrain entitlement programs. Tax cuts in the Republican plan would be of little help for low- and moderate-income households, and the wealthiest 1% of taxpayers would actually gain. The total reduction proposed by the administration would be smaller, but would still exact disproportionate reductions from means-tested entitlements, although to a substantially smaller degree than that proposed by Republicans. Both budget proposals would increase income disparities that already exist. (Contains four figures and five tables.) (SLD)

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ASSESSING THE PLANS TO BALANCE THE BUDGET: WHAT ARE THE EFFECTS ON LOW-INCOME PROGRAMS

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ASSESSING THE PLANS TO BALANCE THE BUDGET: What are the Effects on Low-Income Programs?

by Isaac Shapiro, Richard Kogan, Robert Greenstein, and Marion Nichols

I. Overview

In recent weeks, Republican Congressional leaders and the Clinton Administration placed new budget offers on the table. Would these budget proposals call for evenly shared sacrifice or would they place a disproportionate share of the deficit reduction burden on particular groups, such as those who are poor? This analysis examines these questions. The analysis reflects the latest Republican offer and the Administration offer of January 18, as well as pending action on the fiscal year 1996 appropriations bills.

The analysis finds that the latest Republican budget offer, in conjunction with pending and enacted appropriations bills, would distribute the burden of deficit reduction in the following manner.

- In appropriations action over the past year, including Congressional action on the 1996 appropriations bills, low-income discretionary programs (i.e., programs that are not entitlements) are being cut 19 percent, or $12 billion below their fiscal year 1995 funding level adjusted for inflation. By contrast, all other discretionary programs would be cut an average of five percent. All other *non-defense* discretionary programs would be cut an average of 10 percent.

- Low-income discretionary programs account for 12 percent of all discretionary funding (including defense) but would absorb 33 percent of all discretionary cuts being made.

- A similar imbalance marks proposals to restrain entitlement programs. In the latest Republican proposal to balance the budget,[1] means-tested

[1] Information on the latest Republican offer — which was first made public January 8 — comes primarily from two sources: 1) materials released by Republican leaders that show the total amount of savings their plan would make in each budget category over the next seven years; and 2) detailed tables, one prepared by the Senate Budget Committee Republican staff and the other prepared by the House Budget Committee Republican staff, showing how the savings in each budget category could be

(continued...)

entitlements would be reduced $164 billion over the next seven years. The depth of the cuts would grow with each passing year; by 2002, these programs would be reduced 15 percent. By contrast, *non*-means tested entitlements would be cut an average of six percent in that year.

- Means-tested entitlements comprise 24 percent of all entitlement spending over the next seven years. But they would absorb 42 percent of the entitlement cuts over this period.

- Over the next seven years, low-income discretionary and entitlement programs combined would be reduced between $277 billion and $298 billion. Low-income programs constitute slightly more than one-fifth of the federal budget (23 percent), but they would absorb about two-fifths of the cuts.

- The tax cuts in the Republican plan would be of little help to low- and moderate-income households. The poorest one-third of children would not receive a child tax credit. In addition, several million low-income working households would face a reduction in another tax credit — the Earned Income Tax Credit — and be worse off under the Congressional tax package than if current law remains unchanged.

  By contrast, the wealthiest one percent of taxpayers would ultimately gain an average of $8,450 per year from the tax package that Congress approved in the reconciliation bill, according to a Treasury analysis. The top 20 percent of families would ultimately receive 63 percent — or nearly two-thirds — of the benefits from the tax package. (Detailed information is not available on the changes Republican leaders propose to make in the tax package to reduce its net size to $177 billion, the amount of the tax cut contained in the latest Republican budget offer. Republican leaders have indicated, however, that the principal change will be to sunset some of the tax cuts shortly before 2002 rather than scaling them back substantially.)

- Despite much discussion about going after "corporate welfare," subsidies that government confers on businesses would barely be touched under the Republican plan. According to CBO data, the federal government is slated to provide $718 billion in business subsidies over the next seven years. The reconciliation and appropriations bills would trim these subsidies by a net of $11 billion, or 1.5 percent. The precise amount this

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[1] (...continued)
apportioned over the next seven years on a year-by-year basis. Where the two Budget Committee tables differ (the differences are not large), this analysis uses the midpoint between them.

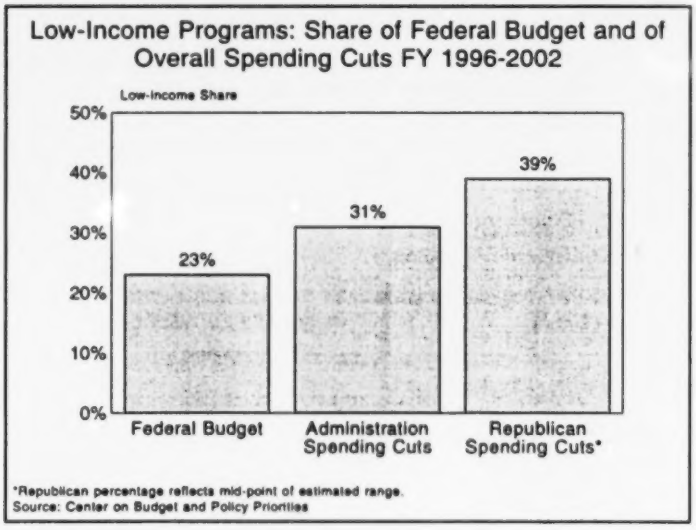
figure would change under the latest Republican offer cannot be determined from the information on the plan that has been made available to date, but it is virtually certain that business subsidies would continue to be given favorable treatment and to escape with a disproportionately small contribution to deficit reduction. By contrast, if business subsidies were trimmed by the same percentage that the latest Republican budget offer reduces programs other than defense and Social Security, these subsidies would be reduced $80 billion over the next seven years — or seven times as much as they would be cut under the reconciliation and appropriations bills.

- An analysis by OMB and HHS indicates that under the reconciliation bill Congress has approved and the pending appropriations bills, three million people — half of whom are children — would be added to the ranks of the poor. The latest Republican offer is unlikely to have lowered this figure much, since the latest offer does not reduce the cuts responsible for most of this projected increase in poverty — the reductions in food stamp benefits, the cuts in assistance to disabled children and to legal immigrants, and the restructuring of the AFDC program.

This analysis also examines the latest proposal to balance the budget put forward by the White House on January 18, 1996.

- The Clinton administration has opposed various reductions that Congress is making in the fiscal year 1996 appropriations bills, including reductions in a number of low-income discretionary programs. Moreover, the total reduction that the Administration has proposed in discretionary programs over the next seven years is smaller than that which the Republicans have proposed. By the year 2002, however, the Administration plan would reduce non-defense discretionary spending 28 percent, about the same amount as under the latest Republican offer. If *low-income* discretionary programs were cut by the same percentage as other non-defense discretionary programs, low-income programs thus would be subject to a 28 percent reduction in 2002.

- The Administration's latest offer would exact disproportionate reductions from means-tested entitlements, although the reductions would be considerably less severe than under the Republican budget proposal. The White House budget plan would reduce means-tested entitlement programs nine percent by 2002, compared with a six percent average reduction in other entitlement programs. The nine percent reduction is, however, substantially smaller than the 15 percent reduction in means-tested entitlements the latest Republican offer would exact in 2002.



- Over the next seven years, low-income discretionary and entitlement programs combined would absorb about 31 percent of the spending cuts under the Administration proposal, compared to about 39 percent of the cuts under the Republican proposal.

- The Administration's proposal differs sharply from the Republican proposal in the tax area. The Administration proposal does not contain several tax reductions Congress has approved that would heavily benefit high-income individuals, and it contains only a modest change in the Earned Income Tax Credit for low- and moderate-income working households. It thus avoids both large tax cuts at the top of the income spectrum and widespread tax increases near the bottom. In addition, because the child tax credit in the Administration plan does not have income limits as high as the Republican child credit does, the Administration's credit would be targeted to a greater extent on middle-income families. Finally, the latest Administration proposal would reduce business tax subsidies about $42 billion over seven years while the Republican proposal, at least as reflected in the reconciliation bill, contains a *net increase* in business tax subsidies.

- The Republican plan appears likely to reduce business *spending* subsidies (as distinguished from business *tax* subsidies) somewhat more than the Administration plan would. The Republican proposal would reduce farm subsidies by $4 billion, while the latest Administration proposal would

not touch them. Earlier Administration proposals contained a $4 billion trim in these subsidies but that was dropped in the latest offer.

In short, both Democratic and Republican plans would reduce low-income programs by a larger percentage than other programs, but the depth of the low-income reductions and the degree to which the budget cuts in the low-income area are disproportionate would be much greater under the Republican approach. In addition, the tax changes in the Republican plan would confer large tax cuts upon those at high income levels while adversely affecting some low- and moderate-income workers, features not present in the Administration plan.

These plans are being considered at a time when income in the United States is more unevenly divided than at any time since the end of World War II and income disparities are wider here than in any comparable western industrialized nation.

Two final points on what is covered in this analysis should be noted. First, the report focuses on the size of the budget and tax cuts. Important policy distinctions between the two budgets, such as whether the Medicaid and AFDC programs should be converted to block grants, are beyond the scope of the analysis.

Second, the comparisons in the analysis substantially understate the likely differences between the two budget plans in the degree to which they would lead to reductions in funding for low-income entitlements because the Republican plan permits states to withdraw much more *state* money from Medicaid and AFDC than the Administration plan does. Medicaid and AFDC currently are joint federal/state programs, in which the federal government matches each state dollar spent on a one-for-one basis or better. The Republican plan would cut federal spending for Medicaid more deeply than the Administration plan; the deeper cuts would mean states could withdraw $26 billion more in state funding from Medicaid as well. In addition, the Republican plan explicitly reduces state matching requirements in both programs — something the Administration plan does not do — with the result that the states could withdraw still more state funds without losing any federal funds. Under the Republican plan, states could withdraw up to another $145 billion of their own funds from Medicaid over the next seven years — and $28 billion from AFDC — without losing any federal block grant funding.

Thus, under the Republican budget plan, the total loss of resources for programs for the poor, when both federal *and state* funding reductions are taken into account, is likely to be as much as $197 billion larger than the figures cited in this analysis. As a result, the gap between the Clinton and Republican proposals in their treatment of programs for the poor would be substantially wider than this study otherwise would indicate. (This issue is examined in detail in a separate Center analysis.)

II. The Republican Proposal

Fiscal Year 1996 Discretionary Appropriations

In appropriations action over the past year, Congress has taken steps to cut discretionary programs that serve low-income households much more deeply than other discretionary programs. The figures here reflect information on appropriations (or "budget authority") levels for each appropriations bill. For those bills that have not been signed into law, the analysis reflects either the conference report or, if the bills have not yet been passed out of conference, the midpoint between the House and the Senate levels. (The fiscal year 1995 appropriation levels used in this analysis are the levels prior to rescissions enacted last summer. The dollar and percentage reductions in this analysis thus reflect the reductions made as a result of actions taken by Congress during 1995.)

- Funding for low-income discretionary programs would be reduced $12 billion, or 19 percent, below the 1995 level adjusted for inflation.

- By contrast, all other discretionary programs are being cut an average of five percent. *Non-defense* discretionary programs not targeted on low-income households are being cut an average of 10 percent.

PERCENTAGE REDUCTION IN APPROPRIATIONS

	Change from FY 1995 Level Plus Inflation	Change from FY 1995 Level Without Inflation
Low-Income Discretionary Programs	-19%	-16%
All Other Discretionary Programs	-5%	-3%
All Other Non-Defense Discretionary	-10%	-7%

- Low-income discretionary programs account for 12 percent of all discretionary funding but are absorbing 33 percent of the reductions in discretionary appropriations.

- Low-income discretionary programs account for 23 percent of *non-defense* discretionary funding but are absorbing 37 percent of the non-defense discretionary reductions.

- If these cuts are measured from a "freeze level" rather than from the fiscal year 1995 level plus inflation, low-income discretionary programs are being cut 16 percent between fiscal year 1995 and fiscal year 1996. This

LOW-INCOME SHARE OF FY 1996 DISCRETIONARY FUNDING AND CUTS

	Low-Income Share of Funding	Low-Income Share of Cuts Measured from FY 1995 Levels Plus Inflation	Low-Income Share of Cuts Measured from FY 1995 Levels Without Inflation
All Discretionary	12%	33%	46%
Non-Defense Discretionary	23%	37%	42%

compares with a three percent average reduction for other discretionary programs and a seven percent average reduction for other non-defense discretionary programs.

Similarly, if the cuts are measured from a freeze level, low-income discretionary programs are absorbing 46 percent of all cuts in discretionary programs. They are absorbing 42 percent of all reductions in non-defense discretionary programs.

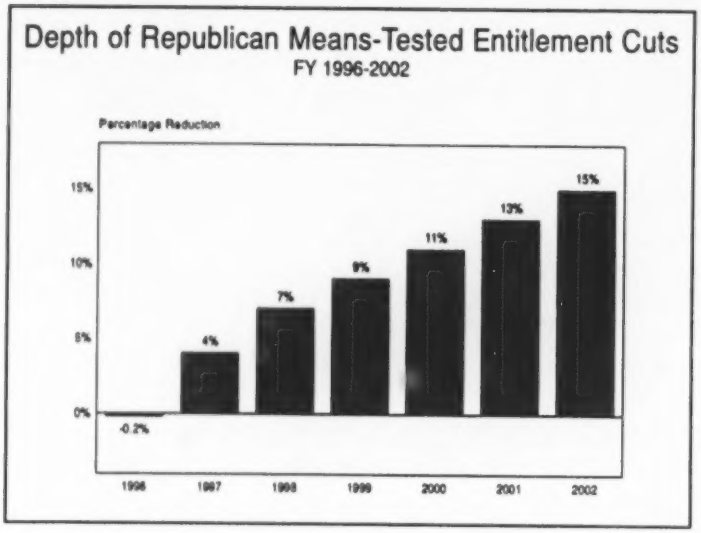
Some low-income programs are being reduced dramatically. Fiscal year 1996 appropriations for employment and training programs would be cut 41 percent below the 1995 level adjusted for inflation. Employment and training programs for youth would be hit hardest. For example, both the House and Senate bills eliminate the summer youth employment program, which assists more than 600,000 youths a year.

Funding for low-income housing programs would be reduced 26 percent below the fiscal year 1995 level plus inflation. In addition, housing assistance for the homeless would decrease 29 percent. In another area, compensatory education for disadvantaged children, which provides funds to assist school districts in improving the educational attainment of disadvantaged children, would sustain a cut of $1.2 billion in 1996, or 16 percent.

These figures reflect reductions in low-income discretionary programs just for fiscal year 1996. The reductions would almost certainly grow substantially larger in subsequent years, since the budget proposal requires that the reductions in overall discretionary funding enlarge with each passing year.

Entitlement Spending

Means-tested entitlement programs also would be hit disproportionately by the Republican plan.



- Means-tested entitlement programs would be reduced $164 billion over the next seven years. The depth of the cuts would grow with each passing year. These programs would be cut four percent in fiscal 1997; by 2002, they would be reduced 15 percent, or $47 billion.

- By contrast, entitlement programs *not* targeted on low-income households would be cut an average of six percent in 2002, only two-fifths as deeply.

- Under current law, low-income entitlements are projected to constitute 24 percent of all entitlement spending from 1996 to 2002. But over these seven years, the cuts in low-income entitlements would constitute 42 percent of all entitlement reductions.

- Medicaid is a low-income entitlement program that would be cut particularly sharply; by 2002, it would be reduced 18 percent below what it would cost under current law. Medicaid would face reductions of $85 billion over the seven-year period.

- Reductions in the food stamp program also would be quite large. They would total $32 billion over seven years. This program, too, would be subject to a reduction of 18 percent by 2002.

- Large reductions in the means-tested entitlement area are the primary reason a recent study by the Office of Management and Budget and the Department of Health and Human Services found the reconciliation conference report and pending appropriations bills would add three

million people to the ranks of the poor. (This estimate does not take into account the reductions in the Medicaid program.)

Combined Effects of Discretionary and Entitlement Cuts

During the period from fiscal 1996 to fiscal 2002, the combined effects of the discretionary and entitlement reductions in the Republican plan would include the following:

- Depending on the assumptions used to estimate how reductions in discretionary programs would be divided between low-income programs and other discretionary programs after fiscal year 1996, low-income discretionary programs would be cut $113 billion to $134 billion over the next seven years.[2]

- When combined with the $164 billion reduction in low-income entitlement programs specified in the latest Republican budget offer, the overall reduction in low-income programs would total $277 billion to $298 billion over this period.

- Low-income programs account for slightly more than one-fifth — 23 percent — of federal spending exclusive of interest payments on the debt. They would absorb about two-fifths — between 37 percent and 40 percent — of all of the budget cuts.

- The severity of the reductions in low-income programs would grow over time. By 2002, low-income programs would be reduced an average of 18 percent to 20 percent. Low-income programs would be hit about twice as hard on average as other programs. (Under the lower-bound estimate of the size of the reductions in low-income discretionary programs, low-income programs *overall* would be cut 18 percent in 2002. Other programs would be reduced an average of 11 percent. Under the upper-bound estimate of the size of the low-income discretionary cuts, low-income programs overall would be cut 20 percent in 2002, while other programs were reduced 10 percent.)

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[2] The lower estimate — $113 billion in low-income discretionary reductions over seven years — assumes that while low-income discretionary programs are being cut by a much larger percentage in fiscal year 1996 than other non-defense discretionary programs, these programs would be cut the same percentage in subsequent years. The higher estimate — $134 billion in low-income discretionary reductions over seven years — assumes that in future years, low-income discretionary programs will bear the same proportion of non-defense discretionary reductions that they would bear in 1996.

It should be noted that even if all programs were cut at the same rate, low-income households would bear a greater deficit-reduction burden than other households. Low-income households obtain a larger share of their disposable income from government programs than do those at higher income levels. Making equal percentage cuts in low-income programs and other programs thus would generally mean that low-income households would lose a larger proportion of their income.

Tax Provisions

While low-income programs and households would be affected disproportionately by the budget cuts in the Republican plan, low-income households would be helped little by the plan's tax cuts. The primary beneficiaries of the tax cuts would be high-income households, the group least affected by the spending reductions. Furthermore, because of the reductions proposed in the Earned Income Tax Credit, the plan's tax provisions would make several million low-income working households worse off.

This section of the analysis reflects data on the effect that the tax provisions of the reconciliation bill would have on various income groups. Comparable information on the tax provisions of the latest Republican offer, which reduces the net size of the seven-year tax cut from $229 billion under the reconciliation bill to $177 billion, is not available.[3] Since the new plan apparently reduces the size of the tax cut primarily by sunsetting many of its tax provisions shortly before 2002 rather than by substantially shrinking the tax cuts, however, the effects of the tax proposals in the new plan on different income groups are unlikely to be very different from the effects of the tax provisions of the reconciliation bill.

Under the reconciliation tax package:

- Nearly half of all children — 44 percent — would receive either no child tax credit or only a partial credit because they live in families that owe no federal income tax or only small amounts of income tax. The poorest third of children — 24 million children — would receive no credit at all. (The principal tax that low and moderate-income families face is the payroll tax. The child tax credit cannot be used to offset payroll tax burdens.)

- Between now and the year 2000, the wealthiest 20 percent of taxpayers would receive $46 billion from the child tax credit, according to a Center

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[3] The Republican offer of $177 billion in net tax cuts over seven years excludes EITC and civil service provisions. For comparability with the $177 billion offer, one must use CBO's estimate of the tax provisions in the reconciliation bill also excluding EITC and civil service provisions. That CBO estimate is $229 billion.

Distribution of Reconciliation Tax Cuts When Fully Phased-In

Income Group	Share of Tax Cuts
Poorest Fifth	0%
Second Fifth	1%
Middle Fifth	11%
Fourth Fifth	24%
Richest Fifth	63%
Top 10 percent	43%
Top 1 percent	17%

Source: U.S. Department of Treasury

analysis of Joint Tax Committee data. The bottom 40 percent of taxpayers would receive just $8 billion.

- Tax benefits from other provisions of the reconciliation bill — such as the large reductions in capital gains taxes and the liberalization of Individual Retirement Accounts — are skewed heavily toward those in upper-income brackets. The wealthiest one percent of families would ultimately gain an average of $8,450 a year from the tax package as a whole, according to a Treasury Department analysis.

  The Treasury Department also estimates that the top one percent of families would receive 17 percent of the tax benefits from the reconciliation bill when the bill's tax cuts are phased in fully. The top 20 percent of families would receive 63 percent — or nearly two-thirds — of the benefits from the tax package.

- The top one percent of families would receive nearly one and one-half times as much from the tax cuts as the bottom 60 percent combined.

- At the same time, because of the reductions in the Earned Income Tax Credit, between five million and six million low-income working households would be worse off than under current law as a result of the tax package. (This estimate reflects the EITC proposals in the latest Republican offer rather than those in the reconciliation bill. The estimate assumes that the EITC reductions in the latest offer, which total $15 billion over seven years, include the elimination of the modest EITC for very poor workers who are not raising children.) Moreover, when the

reductions in low-income benefit programs are taken into account along with these tax changes, low-income families turn out to be large losers.

Corporate Welfare

The rhetoric of some Congressional leaders who have called for reductions in corporate welfare has not been matched by Congressional action. Various analysts employ different definitions of what constitutes a business subsidy. This analysis relies on the definition developed by the Congressional Budget Office, which is set forth in a CBO study issued in July 1995.

- The tax provisions of the reconciliation bill contain a net *increase* in business tax subsidies of $19 billion over seven years. While some business tax subsidies would be scaled back, others would be significantly expanded. For example, the bill would substantially weaken a feature of the tax code that prevents profitable corporations from using so many tax subsidies that they escape paying income tax. This provision alone would drain $17 billion from the Treasury over the next seven years. Republican leaders have not disclosed the specific changes they propose to make in the reconciliation tax package to reduce the size of their net tax cut to $177 billion, but in discussions of the proposal to date they have not signaled a new willingness to scale back business tax subsidies.

- Furthermore, Congress is making only modest changes in spending programs that confer subsidies on corporations. Savings from spending programs that provide subsidies to business would total an estimated $30 billion over seven years under the Republican plan.[4]

- The combined effect of a $19 billion increase in business *tax* subsidies and a $30 billion decrease in business *program* subsidies is a net reduction in subsidies of about $11 billion. This is only 1.5 percent of the $718 billion in business subsidies the federal government otherwise will provide over the next seven years, based on CBO estimates. Unless Republicans change

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[4] This figure was derived by comparing the fiscal year 1996 reductions in annually appropriated business subsidies with the amount of such reductions called for in the House budget resolution for fiscal year 1996. The ratio of reductions actually being made to reductions called for in the budget resolution was multiplied by the amount that the budget resolution called for in reductions in appropriations for business subsidies over seven years. The result is the estimate used here of the amount that appropriated business subsidies would be scaled back over the next seven years under the Republican plan. For more information, see Center report *Will Corporate Welfare Be Reined In? Congressional Action Related to Business Subsidies*, dated November 7, 1995.

course from that laid out in the reconciliation bill and appropriations actions, business subsidies stand to be nicked only lightly.

- If business subsidies were to be reduced by the same percentage that the overall budget exclusive of defense and Social Security would be cut under the latest Republican offer, they would need to be shaved $80 billion over the next seven years, or seven times the $11 billion net subsidy reduction in action to date.

III. Effects of Latest Administration Offer

Entitlement Spending

The Administration's latest budget proposal, unveiled January 18, includes sizable reductions in means-tested entitlements. These programs would be cut more deeply, on average, than other entitlements. The size of these reductions and the extent to which these programs would be cut disproportionately would be much smaller, however, than under the Republican plan.

- The Administration proposal would reduce means-tested entitlement programs $106 billion over the next seven years, as compared with $164 billion under the Republican plan. By the year 2002, these programs would be sliced nine percent, while other entitlement programs were reduced six percent. The proposed reduction in means-tested entitlement programs of nine percent in 2002 is three-fifths the size of the 15 percent reduction that would be made under the Republican plan.

- In the year 2002, the Administration proposal would hit means-tested entitlement programs nearly one and one-half times as hard as other entitlement programs. Under the Republican plan, means-tested entitlements would be reduced nearly two and one-half times as much as other entitlements in 2002.

- The means-tested entitlement program that would be reduced most sharply under the Administration's plan is the food stamp program. It would be reduced $21 billion over seven years, with the reduction equaling 11 percent in 2002.

Moreover, under both the Administration and Republican plans, the extent to which means-tested entitlements bear a disproportionate share of the entitlement cuts is significantly understated. Outside the Medicare area, a substantial portion of the *non*-low-income savings consists either of one-time savings (as with some of the savings

form selling parts of the spectrum) or a simple extension of provisions of current law that would otherwise sunset (some of the veterans savings). So a larger portion of *new, permanent* savings would come squarely out of basic benefits for low-income families, children, and elderly and disabled people than is indicated above.

Combined Effects of Discretionary and Entitlement Cuts

The Administration budget would make a smaller *overall* reduction in discretionary spending than the Republican budget from fiscal years 1996 through fiscal year 2002. In addition, in action on the fiscal year 1996 appropriations bills, the Administration has made clear its opposition to a number of reductions in low-income discretionary programs that Congress has approved.

By 2002, however, the Administration proposal calls for total cuts in discretionary programs virtually as large as those required under the latest Republican offer. Non-defense discretionary spending would have to be cut 28 percent in 2002 under the Administration plan. If low-income discretionary programs were cut the same percentage as other non-defense discretionary programs, low-income discretionary program funding would drop 28 percent by 2002.

As a result, the Administration plan would cut low-income programs as a group — including both entitlement and discretionary programs — more deeply than it would cut other programs. Both the dimensions of the reductions in low-income programs and the degree to which the cuts in these programs are disproportionate would be considerably smaller, however, than under the Republican plan.

OVERALL REDUCTIONS IN SPENDING

	Low Income Programs
From 1996-2002	
Administration	-7.9%
Republicans*	-12.5%
In 2002	
Administration	-13.0%
Republicans*	-19.2%

* Republican percentages reflect the midpoint of the range estimated for low-income reductions in discretionary programs.

Tax Provisions/Corporate Welfare

In the tax area, the effects of the Administration's proposals on different income groups are quite different from the effects of the Republican proposal.

- The Administration proposal does not include the sizable capital gains, estate, and corporate tax cuts in the Republican proposal.[5] These tax cut provisions primarily benefit high-income taxpayers.

- The Administration proposal includes net reductions in business tax subsidies totaling $42 billion over seven years.[6] While the Republican reconciliation bill also contains some reductions in business tax subsidies, it includes substantial expansions in other business tax subsidies. The result is a *net increase* in business tax subsidies of $19 billion. (This estimate is likely to change depending on the specific revisions that Republicans make in their tax proposals to reach their $177 billion tax cut target.)

Net Effect of Proposals on Business Tax Subsidies	
Administration	-$42 billion
Reconciliation	+$19 billion

- The Administration's child tax credit is targeted more heavily on middle-income taxpayers than the Republican version of the credit. A two-parent family with two children would receive assistance from the Administration's credit until its income reached $75,000. By contrast, a family of four would continue to receive assistance from the Republican child tax credit until its income reached $150,000. (The Administration's credit still would reach the vast bulk of the middle class; only about 10 percent of taxpayers have adjusted gross incomes above $75,000.)

- The Administration is proposing EITC reductions of $5 billion over seven years, one-third the size of the $15 billion reduction in the latest Republican offer.

- Both the Administration and Republican proposals would create major Individual Retirement Account tax breaks for tax filers with incomes above $50,000 (for joint filers). The Administration, however, would begin to phase down the tax break at $80,000 of income and phase it out at $100,000. The Republican plan places no upper limit on these new tax benefits.

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[5] The Administration does include a small reduction in estate taxes — costing $1 billion over seven years — for heirs to small businesses and farms. By contrast, the Congressional reconciliation bill would reduce estate taxes by more than $12 billion over seven years.

[6] The Administration proposes to reduce various business tax subsidies by $46 billion over seven years but would expand the small business expensing provision by $4 billion. The net reduction in business tax subsidies would be $42 billion.

It should be noted that while the Administration proposal would go substantially farther than the Republican proposal in reducing business tax subsidies, the Administration plan no longer achieves savings in subsidies provided to agriculture through farm price supports. The Republican proposal would reduce farm price support subsidies $4 billion over seven years. The Administration, which had originally proposed a $4 billion trim here, now proposes that these subsidies remain untouched.

IV. Unbalanced Approach Would Increase Poverty and Exacerbate Income Disparities

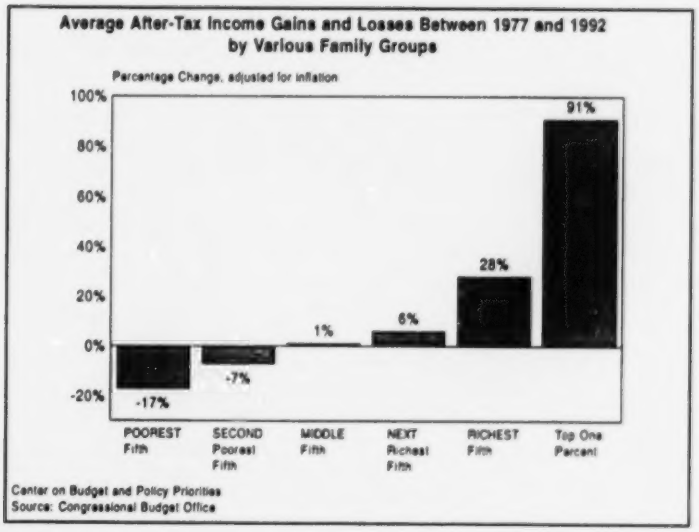
An analysis by the Office of Management and Budget and the Department of Health and Human Services estimated that the Congressional reconciliation bill and pending appropriations bills would push three million people into poverty. Half of these three million individuals are children. The analysis also found that the reconciliation and appropriations bills would make poverty more severe among many who already are poor. While a comparable analysis is not available of the latest Republican budget offer, such an analysis would likely produce a similar result; the principal budget reductions that caused the reconciliation bill to have such a sharp effect in increasing poverty are not altered in the latest Republican budget offer. (Information on the degree to which the Administration's budget would increase poverty is not available. The increase would be smaller than under the Republican proposal because Administration reductions in the means-tested entitlement areas are smaller than the proposed Republican reductions in these areas.)

The budget proposals now under consideration — and particularly the Republican proposals — also would exacerbate income disparities that already are at record levels. Data compiled last year by the Congressional Budget Office show:

- From 1977 to 1992, the average *after*-tax income of the wealthiest one percent of the population nearly doubled, increasing by 91 percent after adjusting for inflation. (1992 is the most recent year for which these data are available.) The average real after-tax income of the top fifth of families rose 28 percent during this period.

- In contrast, the bottom fifth of families experienced an average *decline* in real after-tax income of 17 percent. The average real income of the middle fifth of families was essentially stagnant, ticking up just one percent over the 15-year span.

More recent Census data are available on *before*-tax income. They show that after adjusting for inflation, the average income of the bottom 80 percent of the population was lower in 1994 than in 1989, the last year before recession set in; only the top fifth of



households has recovered fully from the recession. Census data also demonstrate that before-tax income was more unevenly divided in 1994 than at any time on record, with data available back to 1947.

Both the CBO and Census data show that the benefits of economic growth are now being distributed quite unevenly. These data thus suggest that if a balanced budget ultimately leads to faster economic growth, it is upper-income people who are likely to benefit most from this growth. The Republican plan does not ask this group to contribute to deficit reduction, however. To the contrary, the plan would further increase the incomes of those at the top of the income scale by conferring generous tax cuts upon them.

The Administration plan also does not extract much of a deficit-reduction contribution from this high-income group. But the Administration plan refrains from bestowing lucrative tax cuts on these households.

These budget changes are being debated at a time when, according to a recent international study, the gap between rich and poor families with children is wider in the United States than in any of the other 17 western industrialized nations examined. Perhaps most striking, the study also found that poor children — the group that stands to be affected most sharply under the budget proposals — are already substantially poorer on average in the United States than in 15 of the 17 other nations studied.[7]

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[7] Lee Rainwater and Timothy M. Smeeding, Luxembourg Income Study, *Doing Poorly: The Real Income of American Children in a Comparative Perspective*, August 1995.